香港聯合交易所有限公司
(香港交易及結算所有限公司全資附屬公司)

THE STOCK EXCHANGE OF HONG KONG LIMITED
(A wholly-owned subsidiary of Hong Kong Exchanges and Clearing Limited)

通告 CIRCULAR

Subject:	Guidance on BCAN Requirements
Enquiry:	surveillance@hkex.com.hk

As part of the continuing efforts to enhance transparency and awareness of our rules and regulations, the Exchange is issuing guidance on BCAN requirements under the Rules of the Exchange ("Rules").

The Northbound Investor ID Model was launched for market monitoring and surveillance purpose in 2018. Under the Northbound Investor ID Model, China Connect Exchange Participants ("CCEPs") and Trade-through Exchange Participants ("TTEPs") are required to (i) assign a unique number to each of their northbound trading clients (i.e. a "BCAN"), (ii) provide the corresponding investor identification information (i.e. "Client Identification Data" or "CID") to the Exchange before they send their client orders for northbound trading, and (iii) tag the BCAN to every northbound order on a real-time basis.

This circular reinstates the relevant BCAN requirements, highlights a number of deficiencies and instances of non-compliance, and some good practices observed since the launch of the Northbound Investor ID Model. CCEPs and TTEPs are strongly advised to review their current set up, adopt appropriate measures to strengthen their controls, and where necessary, take immediate actions to rectify any similar breaches or deficiencies.

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1. BCAN Assignment

Relevant requirements	
Rule 1425A(1)(a), FAQ[1]'s 3 and 4	A unique BCAN should be assigned to each northbound trading client.
Rule 1425A(1)(b) and FAQ 18	A separate BCAN should be used to identify any joint account by such client.
Rule 1425A(1)(d) and FAQ 6	If a CCEP's or TTEP's direct client is an affiliate (for agency trading), BCAN should be assigned at the next level or further levels down until the client is not an affiliate.
Rule 1425A(1)(e) and FAQ 4	BCAN assigned to a client should not be changed or re-used for another client. If BCAN change is required in exceptional cases, the Exchange's prior written approval must be obtained.
FAQ 11	A unique BCAN can be assigned to a fund manager client or a fund that it manages depending on the account opening arrangement.
Deficiencies and instances of non-compliance	

A. One BCAN for one client

Multiple BCANs were assigned to the same client by a CCEP / TTEP due to:

- clerical mistakes in the manual or semi-auto BCAN assignment process
- design deficiencies in the automated BCAN assignment process (e.g. assignment logics did not properly cater for the handling of joint account)
- inadequate controls over the processing of BCAN assignment to clients with multiple trading accounts such as cash and margin accounts, master/sub-accounts, fund and fund manager accounts
- same client being treated as different persons when different types of identity documents were used for account opening
- clerical mistakes resulted in multiple client profile creation for the same client

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[1] The FAQ on Northbound Investor ID Model ("FAQ") could be located on HKEX website.

1. BCAN Assignment (continued)

Deficiencies and instances of non-compliance (continued)
B. Account opening arrangement A single BCAN was assigned to a fund manager client, though based on the account opening arrangement, different BCANs should have been assigned to the funds managed by the fund manager client. **C. CCEPs/TTEPs with client-facing affiliates** BCAN was only assigned to the affiliate (for agency trading) but, as stated in the Rules and the FAQ, the BCAN should be assigned at the next level or further levels down until the client is not an affiliate. **D. Change of BCAN** Inappropriate BCAN changes were made on the following occasions: • Instead of correcting an error of the CID in the BCAN-CID Mapping File, a new BCAN mapped with the correct information was assigned to replace the original BCAN. • The BCAN intended for one client ("Client A") was accidentally assigned to another client ("Client B"). To rectify, the CCEP re-assigned the Client B's BCAN back to Client A. However, BCAN assigned to a client should not be changed or re-used for another client.
Good practices observed
• Adopt automation to minimize manual intervention as much as possible • Implement maker-checker mechanism where manual procedures are involved • Where automated process is involved, conduct proper testing procedures including thorough user acceptance testing before launch of such process • Request client to declare in the account opening form whether he/she has opened any other account with the firm and if so, make sure the same BCAN is mapped for such client • Perform independent checks to verify whether information of such client already exists

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1. **BCAN Assignment (continued)**

Good practices observed (continued)
CCEPs and TTEPs should consider adopting a combination of the above practices as appropriate. Adequate and regular training should also be provided to responsible staff involved in the BCAN assignment and amendment processes.

2. **Accuracy of BCAN-CID Mapping File**

Relevant requirements	
Rule 1425A(3) and FAQ 7	BCAN-CID Mapping File should be accurate and up to date. Any correction or update should be submitted to the Exchange including those clients whose BCAN-CID mapping data has not changed.
FAQ 11 and BCAN-CID Mapping File Example[2]	For a client that is a <u>fund</u>, the correct BCAN client type should "3". For a client that is a <u>fund manager</u>, the correct BCAN client type should be "4".
FAQ 19 and BCAN-CID Mapping File Example	BCAN client type "5" should be used to indicate proprietary or principal trading of the <u>CCEP/TTEP</u> and/or its <u>affiliate(s)</u>.

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[2]   Detailed examples are set out in "<u>BCAN-CID Mapping File Data Record Examples</u>"

2. Accuracy of BCAN-CID Mapping File (continued)

Deficiencies and instances of non-compliance
Examples of errors noted in the BCAN-CID Mapping File are set out below: **A. BCAN client type** Insufficient understanding of the relevant BCAN requirements and/or failing to duly consider relevant client information to correctly determine which BCAN client type should be assigned, for example: • BCAN client type 5 (intended for proprietary or principal trading by a CCEP/TTEP or its affiliates) was incorrectly used for the house accounts of non-affiliated clients. • failure to correctly indicate its fund <u>and</u> fund manager clients as BCAN client type 3 and 4, respectively. **B. Client Identification Data** Clerical mistakes and/or design deficiencies in automated BCAN-CID Mapping File compiling process, for example: • accidentally inputted fund manager's CID when the BCAN was assigned to a fund it manages. • subsequent changes to CID (e.g., Legal Entity Identifier) made within the client database were not reflected in the latest BCAN-CID Mapping File. **C. Mapping file format** Failure to observe the BCAN-CID Mapping Files format [3] during compilation process, resulted in BCANs being unintentionally cancelled in some cases.

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[3] For details of the required format of BCAN-CID Mapping File, please refer to "China Stock Connect Northbound Trading Investor ID Model System File Interface Specification"

2. Accuracy of BCAN-CID Mapping File (continued)

Good practices observed

Other than maker-checker mechanism and thorough testing of automated processes, staff responsible for any manual procedures should carefully consider the following during client onboarding, BCAN preparation and BCAN-CID Mapping File compilation stage:

- who is the client onboarded as per the account opening arrangement
- which is the correct client type
- if the client is an affiliate or TTEP, what is the purpose of trading (i.e. proprietary or principal trading, or agency trading)
- if the client is an Exchange Participant, is it properly registered as a TTEP
- has BCAN range(s) been properly set aside for its affiliates or TTEP clients
- has client confirmed whether he / she has any other trading account opened with the firm
- has any independent verification been carried out on all client information obtained to ensure accuracy
- has any regular reconciliation been carried out on BCAN-CID Mapping File to ensure data is complete, accurate and up-to-date

Please note that any request to change BCAN client type should be sent to OTPC@hkex.com.hk. For more details, please visit the Guidance Notes on BCAN-CID Mapping File.

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3. BCAN Tagging

Relevant requirements	
Rule 1425A(4) and FAQ 3	The correct BCAN is required to be tagged to each northbound China Connect order on a real-time basis.
Rule 1425A(7)	An order tagged with an incorrect BCAN should be cancelled promptly. If such order has been matched, then corresponding BCAN correction should be reported to the Exchange.
FAQs 11 and Circular (Ref. no. CT/101/18)	While BCAN can be assigned to both fund manager and fund clients, a consistent approach in tagging BCAN should be adopted when submitting northbound trading orders for the fund manager or the fund.
Deficiencies and instances of non-compliance	

A. BCAN tagging

Failure to include the correct BCAN in each northbound China Connect order due to:

- manually inputted or selected an incorrect client account, for example:
    i. An order was received via FIX from a trader with authority to place orders for different accounts. The FIX message did not specify which account the order is for. Responsible staff selected the wrong client account for the order.
    ii. An order was received by telephone from a client. Responsible staff inputted the wrong client account number.
- accidental change of the client's identity when the order was being processed by different systems within the organization

B. Reporting BCAN correction

Failure to follow the specified format when inputting the relevant details into the BCAN Error Report.

3.   BCAN Tagging (continued)

Good practices observed
CCEPs and TTEPs should consider to: • perform regular reconciliation between client instructions and client stock positions to identity and rectify any incorrect BCAN included as soon as possible • perform thorough testing on automated process to ensure controls remain effective following any system migration or enhancement • provide training to the relevant staff to ensure that they have a clear understanding of the business operations, including what may impact the BCAN being included in each northbound China Connect order • where reporting of BCAN errors is necessary for any executed trades, verify whether the format of the trade details inputted in the BCAN Error Report is correct (e.g., the Trade Match ID, Transaction Date etc.) An enhanced BCAN Error Report template with format check is available on HKEX website. CCEPs and TTEPs should use this template when reporting BCAN errors.

4.   BCAN Confidentiality

Relevant requirements	
FAQs 4 and 21	BCAN should be prepared in such a way not to bear any obvious link to a client's identity and must be kept strictly confidential. In particular, the use and accessibility of BCANs (even within the CCEP or the TTEP) should be strictly restricted to a need-to-know basis.
Deficiencies and instances of non-compliance	
Some examples are set out below: • Clients' trading account numbers (in full or part) were used to form the BCANs • BCANs were displayed in the general enquiry / trading screens of internal systems	

4. BCAN Confidentiality (continued)

Good practices observed
CCEPs and TTEPs should consider to implement controls and provide proper training to the relevant staff to ensure that BCANs are kept confidential.

CCEPs and TTEPs are encouraged to contact the Market Surveillance and Monitoring Department (email: surveillance@hkex.com.hk) should they have any question on the above.

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This circular has been issued in English together with Chinese translation of the same. If there is any discrepancy between the Chinese translation and the English version, the English version shall prevail.